

RETAIL DESIGN AND DEVELOPMENT STANDARDS

Economic Impact of Large Format Retailers

Urban Design & Planning – Comprehensive Planning

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Economic Impact Analysis in Oregon:

Council directed staff to investigate an Economic Impact Analysis as an element of the Retail Design and Development Standards project at the April 20th Council meeting. At this time, the only other known economic impact study in use in the State of Oregon is the City of Newberg's, whose limited scope only addresses municipal costs and revenues, not impacts on local businesses, social costs or other factors often associated with these studies.¹

According to the City Attorney's office, land use ordinances must be consistent with Oregon's Land Use Goals and Guidelines, particularly Goal 9 (Economic Development) and Metro's Functional Plan. Within this Goal 9, economic impact reviews may be permissible due to broad statements about economic development:

GOAL 9: ECONOMIC DEVELOPMENT: To provide adequate opportunities throughout the state for a variety of economic activities vital to the health, welfare, and prosperity of Oregon's citizens. *Comprehensive plans and policies shall contribute to a stable and healthy economy in all regions of the state.*

Metro's Functional Plan's Title 6: Central City, Regional Centers, Town Centers and Station Communities is equally as general with statements that may permit an economic impact study.

Title 6 intends to enhance Centers by encouraging development in these Centers that will improve the critical roles they play in the region and by discouraging development outside Centers that will detract from those roles.

The City Attorney's office is unsure if these provide substantial legal grounds to require an economic impact analysis as part of the approval process of large format retail development. Aside from Newberg's ordinance, there is also no established precedent in the State's legal context and Gresham may be forced to establish the legality of the ordinance through litigation. There are also several economic issues that Gresham is not capable of regulating, due to federal and state laws. Predatory pricing, for example, cannot be regulated by local governments (and even the federal government has not been able to prove a case of this).

Summary of Economic Impact Issues:

Economic impacts of large format retail, both positive and negative, can be significant and also highly variable. Several published studies have detailed these potential impacts on surrounding communities as well as on state and federal budgets.

¹ City of Newberg's ordinance is included in Attachment 1

The economic issue that appears to be of greatest concern in Gresham is the potential for large-format retailers to dominate the market and the resulting negative impacts on local businesses. Large format retailers may offer merchandise at lower prices, which can draw sales away from and marginalize independent and locally owned retailers. This reduction in sales at smaller-scale retailers can cause reduction in staffing levels or force the closure of these businesses. The introduction of large format retail may also put downward pressure on local wages in the retail sector. The shifting of expenditure from local to national retailers also results in a greater quantity of dollars leaving the market area. Other impacts from large format retail which have been cited include effects on municipal finance. The research review which follows will discuss studies which focus on these concerns.

Research Review:

While significant amounts of research exists on the impacts of large format retail on communities, the vast majority of the research focuses on impacts of Walmart, supercenters and discount stores with less discussion of smaller specialty stores. The research was created in a variety of contexts, with some more applicable to Gresham and others only marginally relevant. None of these studies examined large format retail in the Portland metropolitan area or within the context of an urban growth boundary.

Fixed Retail Expenditure

One finding that is agreed upon by virtually every study evaluated is that there is a relatively fixed amount of retail expenditure in a given market area. This means the addition of new stores will generally redistribute existing spending rather than create additional spending. The introduction of a new product type into a market area may create some new expenditure, but it is typically very limited. However, if communities are growing, the increase in population and income will create the capacity to absorb new retail space.

Lower Prices to Consumers

Another finding that is generally agreed upon is that large format retailers offer lower prices to consumers, which provides a benefit to the community. Studies cited groceries at a supercenter would be expected to cost 15-20% less than a comparable grocery store with certain items up to 39% lower.² However, even this assumption is challenged by certain reports. A second report indicates new large format retailers may initially offer lower costs of many items in an effort to draw customers away from existing businesses. After a period of time, the new retailer may return prices to the market rate and utilize loss leaders (high-need products sold at very low margins), maintaining the perception they are still offering very low prices.³

Competing Retailers

Much of the research on large format retail's capability to dominate a market focuses on Walmart. Kenneth Stone, a professor at Iowa State University, has extensively researched the impacts of Walmart in Iowa and has authored several studies on the subject. One of his studies, which analyzed 34 Iowa towns with populations between 5,000 and 30,000 in which a Walmart was developed, drew two main conclusions which may be relevant to Gresham:⁴

Rule 1: Merchants selling goods or services different from what Wal-Mart sells become natural beneficiaries. In other words, since they are not competing directly, many of them benefit from the spillover of the extra customers being pulled into town by Wal-Mart.

² Wal-Mart Supercenters: What's in store for Southern California? Los Angeles Economic Development Corporation, January 2004; Big Box Retail and Austin, City of Austin, June, 2004.

³ Final Report on Research for Big Box Retail/Superstore Ordinance (City of Los Angeles); Rodino Associates, Oct. 2003.

⁴ Competing with the Discount Mass Merchandisers; Kenneth Stone, 1995.

Rule 2: Merchants selling the same goods as Wal-Mart are in jeopardy. In other words, they are subject to losing some trade to Wal-Mart unless they change their way of business.

Another study prepared in 2004 for Austin, TX,⁵ expands on this idea, adding that large format and locally owned retail is not an “apples-to-apples” comparison. Because locally owned retailers can not typically compete solely on price, they have adapted by stocking higher quality merchandise and goods not available in large format retail, with greater emphasis placed on customer experience and service. The report goes on to state that the healthiest retail markets are those that are competitive and give consumers choice, and in such context many consumers will “trade up” for quality instead of paying less for marginal items.

This idea of quality and value is echoed by the Bureau of Labor Statistics, the federal agency in charge of maintaining the consumer price index. The agency feels monetary savings incurred at discount retailers is offset by sacrifices in quality.⁶

A December 2009 study prepared jointly by Loyola University and the University of Illinois Chicago detailed the impacts of one of Chicago’s first Walmart stores which opened in 2006.⁷ The study utilized three business surveys, taken shortly before Walmart opened and annually thereafter, to identify the store’s impacts on competing businesses within 4 miles. Competing stores located immediately adjacent to Walmart had a 40% chance of closure in two years which followed the opening; this probability decreased 6% for every mile the competing retail was located from Walmart. Between the different types of retailers competing with Walmart, a higher closure rate was seen in stores carrying electronics, toys, office supplies, general merchandise, hardware, home furnishings and drugs. Stores which carried apparel, shoes, sporting goods, children’s goods and video/music media appeared to not be affected by proximity to Walmart, and presumably were not impacted by its development. The study also showed employment gains at the Walmart were offset in employment losses related to surrounding business closures. This study did not discuss a typical closure rate for local businesses, giving the impression that every closed business was caused by Walmart.

Employee Compensation: Wages and Benefits

Many studies also discuss the downward pressure on wages and total compensation created by large format retailers. The Rodino Report for the City of Los Angeles cited large format retail’s total compensation (wage and benefits) to be up to \$8.00 per hour less than competing union grocery stores in California.⁸

A 2005 study by the Labor Center at UC Berkley arrived at similar findings.⁹ According to the study, Walmart’s hourly workers earn approximately 15% less than workers at other large retailers and 12% less than the retail average. The study found that Walmart’s health care deficiencies may be overstated. While their healthcare enrolment rate and contributions are less than other large retailers, they have a higher rate than retail as a whole. The reports summarized their findings:

“Walmart’s health benefits are somewhat worse than those of other large retailers, but no worse (and perhaps better) than those offered by small retailers.”

⁵ Big Box Retail and Austin; June 2004

⁶ Some Uncomfortable Findings for Walmart; BusinessWeek, October 26, 2005.

⁷ The Impact of an Urban Walmart Store on Area Business; Loyola University, University of Illinois Chicago, December 2009. <http://www.luc.edu/curl/pdfs/Projects/WalMartReport2009122.doc>

⁸ Final Report on Research for Big Box Retail/Superstore Ordinance (City of Los Angeles); Rodino Associates, Oct. 2003.

⁹ Walmart and Job Quality – What Do We Know, and Should We Care?; UC Berkeley Center for Labor Research and Education, October, 2005.

Table 1 – Comparison of Average Hourly Wages (2005)	Adjusted Average Wage	Walmart Wage	Difference	% Difference
Large Retail	\$11.08	\$9.68	\$1.40	14.5%
All Retail	\$10.88	\$9.68	\$1.20	12.4%
Large Grocery	\$11.37	\$9.68	\$1.69	17.5%
All Grocery	\$10.41	\$9.68	\$0.73	7.5%
Large General Merchandise	\$10.41	\$9.68	0.73	7.5%
All General Merchandise	\$10.44	\$9.68	0.76	7.9%
Large General Merchandise*	\$12.16	\$9.68	\$2.48	25.6%
All General Merchandise*	\$11.36	\$9.68	\$1.68	17.4%

Table 2 – Comparison of Employer-Sponsored Health Insurance	Adjusted % Enrollment	% Walmart	Difference
Large Retail	53.0%	48%	-5.0%
All Retail	45.2%	48%	2.8%
Large Grocery	53.0%	48%	-5.0%
All Grocery	41.6%	48%	6.4%
Large General Merchandise	49.5%	48%	-1.5%
All General Merchandise	46.5%	48%	1.5%
Large General Merchandise*	53.1%	48%	-5.3%
All General Merchandise*	44.7%	48%	3.3%

* Not including Walmart employees

Table 1 and 2: Wage and Health enrollment data. Source: Walmart and Job Quality – What Do We Know, and Should We Care?; UC Berkeley Center for Labor Research and Education, October, 2005.

In contrast, Costco has been recognized for providing hourly employees with living wages and better access to health care. Costco's average hourly wage is over \$18.00 per hour with 90% of employees eligible for health insurance and 87% enrolled.¹⁰

Dollars Retained in the Local Economy

Another area of study was the economic impact local businesses have on the local economy compared to national retailers. The Institute for Local Self Reliance detailed areas where local businesses retained profits in the local economy:¹¹

- Patronage of other local business for services and products
- Local ownership and management results in increased local wages and retained profits
- Increased charitable giving to local organizations

Civic Economic has authored several studies detailing this concept, including a 2009 study which compared the local recirculation of dollars from local businesses on Magazine Street in New Orleans to that of a hypothetical Super Target.¹² The primary conclusion was local businesses returned nearly twice as much to the local economy as did the national retailer (32% vs. 16%).

While these relationships seem logical, this study presents information that does not lead to a direct comparison. The comparison of a typical Target to one of New Orleans's most high-end boutique retail areas may illustrate the concept but likely inflates the actual impact.

¹⁰ Costco Employment Facts; May 2008.

¹¹ Big Box Tool Kit - <http://www.bigboxtoolkit.com/images/pdf/Premium.pdf>

¹² Thinking Outside the Box - http://www.staylocal.org/pdf/info/ThinkingOutsidetheBox_1.pdf

These studies did not indicate whether consumer savings were considered as dollars retained in the local economy.

Municipal Costs and Revenue

Staff asked Gresham's Police and Fire Departments to quantify the required service to large format retailers within their service areas to determine if these businesses require a disproportionate amount municipal services. Police and Fire provided data below, which details calls for service over the past three years.

Fred Meyer: The Fire Department had 99 calls for service in the past three years. 55 of the call were for EMS service. The department indicated Fred Meyer had a higher level of calls due to its location on Burnside. Many of these were for bark dust fires in landscaped areas of the street and traffic accidents accounted for 3 of these calls. The Police Department had 675 calls for service at Fred Meyer between 2007 and 2009. This number included 155 responses for theft but also included traffic stop and suspicious persons.

Home Depot: The Fire Department had 12 calls for service for Home Depot. The Police Department responded to 334 calls, including a much lower rate of theft.

Lowe's: Lowe's had 13 calls for fire service and 165 call for police service.

Large Format Retailer	Police Calls (2007-2009)	Fire Calls (Last 3 Years)
Fred Meyer, 2497 SE Burnside	675	99
Home Depot, 25101 SE Stark St*	334	12
Lowe's, 1000 NE Wood Village Bv*	165	13
Fred Meyer, 22855 NE Park Ln*	474	
Target, 21500 NE Halsey St*	378	
Walmart, 23500 NE Sandy Bv*	1515	
<i>Reference**</i>		
<i>Safeway</i>	459	
<i>Plaid Pantry</i>	438	
<i>Barberry Village Apartments</i>	639	

* Gresham Police Department is not the primary law enforcement for these areas

** Three year estimations based of 2009 data

The Police Department provided comparison values, including Safeway, Plaid Pantry and Barberry Village Apartments. These values seem to indicate, with exception of the Walmart, large format retail does not require a disproportionate amount of service calls. The Fire Department did not supply data for comparison, but stated they receive many more calls for service from nursing homes and care facilities than retail development.

Process of an Economic Impact Analysis

As part of an approved ordinance, a standard must be established that a project must meet in order to be approved. For example, the policy may say that the hearing body (e.g. Planning Commission or Hearings Officer) may approve the development only if it concludes, based on the data provided by the study, that the project will not have an undue adverse impact on the community or that the benefits of the development will outweigh the costs. Following this process, an economic impact study generally follows these steps:

1. The analyst identifies the lines of goods to be offered by the big box retailer. Large discount stores offer tens of thousands of individual products across multiple lines of goods, which may or may not add diversity to the choices available to the public. A sales forecast (in dollars) is developed for each line of goods and an estimate is made of the jobs and wages associated with the forecast.
2. The analyst characterizes the existing local retail activity and conditions. This includes a determination of the extent of the retail market area for the proposed store, quantifying both the demand for and the existing retail sales in the market area for each line of goods, estimating existing retail employment and other aspects.
3. The analyst then examines how the market area economy will respond to the big box store. The main consideration here is how much of the retailer's projected sales will be drawn from existing merchants and how much will be new to the locality. Analysts often develop this forecast into a range, reflecting the medium, or most probable scenario, as well as the high and low ends of the forecast. The low scenario forecast generates the least new sales to the locality and depends more on diverting or capturing the market from existing merchants. The high scenario generates the most new sales to the local market area and depends least on diverting sales from existing merchants. The medium scenario represents the most likely mix of new and diverted sales.
4. Finally, the analyst projects the impact on retail employment, wages, tax revenue, municipal costs of providing services for the big box, the net fiscal impact on the jurisdiction and other factors.

Review of Economic Impact Ordinances:

The following details Economic Impact Ordinances from around the country. The majority of these ordinances require the economic impact study to accompany a conditional use permit application process with few exceptions. These studies evaluate a variety of impacts including those on existing businesses, wages, tax revenue, municipal and social services and other items. These ordinances are intended to prevent the development of retail over the specified size unless it can demonstrate it will not have an adverse economic impact on the community.

The concepts illustrated in several of these ordinances, including Brattleboro, VT, Carbondale CO, Homer, AK, and others which are often cited as models by groups that oppose large format retail, may not be transferable to Gresham. These communities are generally small and geographically isolated from a major population center or even the next town. The introduction of a large format retailer, such as a Super Walmart, could have devastating consequences on locally owned businesses in these communities, since there simply is not sufficient market to support both types of retail development. *These communities may also be able to effectively regulate large format retailers if they control their entire market area. In many cases, there is not another community for many miles, which could reduce the possibility that a retailer could develop a store just over a Community's border.*

Specific ordinance language can be found in Attachment 1.

Santa Fe, NM, requires an economic impact study for retail over 100,000 square feet (design requirements begin at 30,000 square feet). Santa Fe's ordinance does automatically prohibit the development of retail if the economic impact is negative, but it "may be used to require the applicant to address and/or offset negative economic impacts...as part of the approval process." This provides the community flexibility to approve desired retail development if it is shown to have a negative economic impact. Santa Fe's ordinance is relatively new (2006) and has not been utilized at this time. The City has not identified specific mechanisms that would be used to address or offset a negative economic impact. Santa Fe also

adopted a living wage ordinance, which raised the minimum wage to \$9.85 per hour from its previous level at \$6.50 per hour.

Alameda County, CA, utilizes a flexible conditional use permit process. The permit cannot be issued if the project creates an adverse impact upon the community, but the process allows the Planning Commission (or Board of Supervisors on appeal) to make that decision based on the economic impact study, public comment and any other information received.

Newberg, OR, is the only municipality in the state we are aware of which requires an economic impact study. This study, required for retail development over 30,000 square feet, only addresses municipal costs and revenues, such as impacts on transportation facilities, City services, taxes, etc; the study does not address impacts on local businesses, money retained in the local economy and cost of social services.

The Informed Growth Act, introduced in the Oregon Legislature in 2007 and 2009, addressed the economic impacts of large retail development on a state-wide basis. While this bill never made it out of committee, it illustrates a legal methodology to regulate the economic impacts on Oregon. Its short life, though, was indicative of issues with the bill and the opposition of many parties around the state. Some felt the bill had difficulties meshing with the state's land use context, while others felt it was a subject that should be dealt with on a local level.

The bill requires cities make a finding that the projects overall positive impacts outweigh the negative impacts based on the economic impact analysis. The comprehensive analysis would include discussion about the retail market including overlapping businesses, employment and wages, locally retained revenue, transportation and public financial impacts (taxes, services, facilities/infrastructure and subsidies).

Community	Population	Distance to next city and Context	Requirements	Applicability (sf)	Economic Impact Review Requirements									
					Employment	Public Services	Public Infrastructure	Property Values	Business Impact: Captured Sales	Revenue retained in local economy	Tax Revenue	Store Closure	Consumer Savings	Vacancy/Property or Lease Restrictions
Mt Shasta, CA	3,500	10 miles Rural Town	Provisional Permit (Discretionary Process)	20,000										
Carbondale, CO	5,000	13 miles Rural Town		30,000 sf or 500 trips/day Grocery stores exempted.										
Homer, AK	5,000	75 miles Rural Town	Conditional Use Permit Economic Impact Review	15,000										
Brattleboro, VT	12,000	19 miles Rural Town	Conditional Use Approval Economic Impact Review	65,000										
Westbrook, ME	16,000	7 mile Rural Suburb of Small City	Economic Impact Review											
Middletown, RI	18,000	4 miles Rural Suburb of Small City	Development Impact Review	Required but may be waived if impacts are too minimal to warrant a review										
Greenfield, MA	19,000	20 miles Small Rural City												
Newberg, OR	21,000	3 miles Metro Area	Economic Impact Review	30,000										
Santa Fe, NM	62,000	Moderate City Non-metro Area	Discretionary Review Process Economic Impact Review Living Wage Ordinance	100,000										
Vallejo, CA	120,000	Moderate City Metro Area - Edge	Economic Impact Review Conditional Use Permit	75,000 sf and 10,000 sf dedicated to grocery sales										
Alameda County, CA (unincorporated areas)	125,000	Metro Area	Economic Impact Review Conditional Use Permit	100,000 sf and greater that 10% dedicated to the sale of non-taxable goods; discount clubs exempted.										
Los Angeles, CA	3,800,000	Metro Area	Conditional Use Permit Economic Impact Review required in Economic Assistance Areas only	100,000										

Ordinances evaluated: context, applicability and requirements

Gresham's Context

As Gresham's context is discussed, it is important to remember that retail market areas do not follow municipal boundaries; Gresham's retail market, from large format to mom and pop stores, is significantly impacted by the regulations and retail development in surrounding communities.

There are currently several large format retailers in and around Gresham, which may have already impacted local businesses. The extent of this and the amount of direct competition between local and national retailers is unknown and will remain so without a comprehensive economic analysis of Gresham, but given the close proximity of several national retailers, it's possible that if a consumer was going to make a choice between local retailers and a national discount retailer, they likely already have. A member of the stakeholders group has indicated that there is little direct competition between large format retailers and Gresham's Downtown: the stores do not directly compete with national retailers, but offer complimentary but unique products.¹³ While the Downtown may not be representative of all small and locally owned

¹³ Conversation with Megan Braunsten (04/28/2010), member of the Retail Design and Development Stakeholders group. Megan was not representing GDDA during this conversation.

businesses, it is working towards a successful model of how large format retail and local business can co-exist.

If local retail in Gresham can co-exist with national retailers and if large format retail primarily locates outside the City, the results may not favor Gresham. This case would result in not only expenditure leaving Gresham, but shifts in traffic patterns could potentially marginalize Gresham's local businesses while creating additional traffic associated with longer trips out of Gresham.

Economic Impact Analysis for Gresham:

The following information should be considered while discussing the appropriateness of requiring an economic impact analysis for new large format retail:

Added Cost: Depending on the level of detail, economic impact studies start at \$7,500 and can reach up to \$50,000 depending on the scope and level of detail required.¹⁴

Market Area vs. Municipal Boundary: As previously mentioned, market areas for retailers do not follow municipal boundaries and Gresham's market is subject to forces outside of the city's boundaries and control. If Gresham adopts an economic impact analysis, retailers may elect to by-pass this process by locating in a neighboring community while still capturing sales from Gresham.

Benefits and Risks to Local Business: As discussed in previous pages, studies have shown certain retailers may be negatively affected by the introduction of large format retail. Alternatively, businesses that do not directly compete, by offering niche products, higher quality items and focusing on customer service and experience, may benefit by the presence of large format retailers. The Downtown business strategy fosters a business district that compliments large format retail development with unique products and services, rather than directly competing with it.

Potential for Skewed Results: After a discussion with Eric Hovee, a principal with the local economic firm ED Hovee & Company, it was learned that the nature of economic impact studies are not entirely objective. Specifically, the definition of the market area can significantly impact the results of the study to show positive or negative economic impacts. This informed but subjective market area boundary lessens the true objectivity of the study.

Economic Impact Analysis Elements:

The following items should be included in the Economic Impact Analysis:

City Controlled, Applicant Funded Economic Consultant: Most ordinances indicated the community selected the economic consultant used to create the review. Some ordinances dictate the community utilize an RFQ process and have preselected consultants to utilize. All ordinances indicated the applicant was responsible for paying all fees associated with hiring the economic consultant.

Specific Scope: All ordinances specify the economic study must include certain impacts when determining if the development has a positive or negative impact. Required elements of the review should include:

¹⁴ Phone Conversation with Eric Hovee.

- Defined market area
- Growth potential of market
- Purchasing power, demand and projected sales
- Impacts on existing businesses
- Employment and wage potential
- Revenue retained in the local economy
- Costs of municipal services and infrastructure
- Taxes and other municipal revenue
- Consumer prices

Economic Impact Study Findings: Some communities that utilize the economic impact study automatically deny the application based on a negative economic impact; most communities create flexibility in the findings by allowing the Planning Commission or City Council to make the final determination of positive or negative economic impact based on the study, public comment and other information presented. Providing some degree of flexibility would allow Gresham to approve desired projects that may have modest negative impacts, potentially requiring some method of mitigation.

Santa Fe reserves the right to require the applicant to mitigate or address the negative impacts as a condition of approval, although they have not identified these measures. Alameda County requires the Planning Commission to make a decision on the economic impact based not only on the study, but also public comment and other information provided to staff, the Commission or elected officials.